

Kentucky Retirement Systems Overview



Presented to:

***KRS Pre-Retirement
Education Programs***

August-September 2015

KRS Website: www.kyret.ky.gov

Browser address bar: <https://kyret.ky.gov/Pages/default.aspx>

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GOVERNOR STEVE BESHEAR

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KENTUCKY RETIREMENT SYSTEMS

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Kentucky Retirement Systems

KRS Self Service Outage
KRS self service websites will be unavailable for fiscal year end processing. Outages are: 6:00pm on 8/7 through 6:00am on August 10, 6:00pm on 8/14 through 6:00am on August 17, 6:00pm on 8/21 through 6:00am on August 24.

Recent News

Prep Sessions are Open for Registration
This summer KRS is offering Pre-Retirement Education Programs (PREP) and will be hosting meetings throughout the Commonwealth.

Retirees & Family
Learn about your retirement account or find answers to your benefits and insurance questions.
[Learn More](#)

Current Employees
Learn more about your service, benefits, and future pension.
[Learn More](#)

Agency Employers
A variety of reporting resources for participating agencies.
[Read More](#)

Sheriff Employment of Retired Police and Recertification

Tier 3 Cash Balance Plan Guide

GASB Governmental Accounting Standards Boards Information & Reports

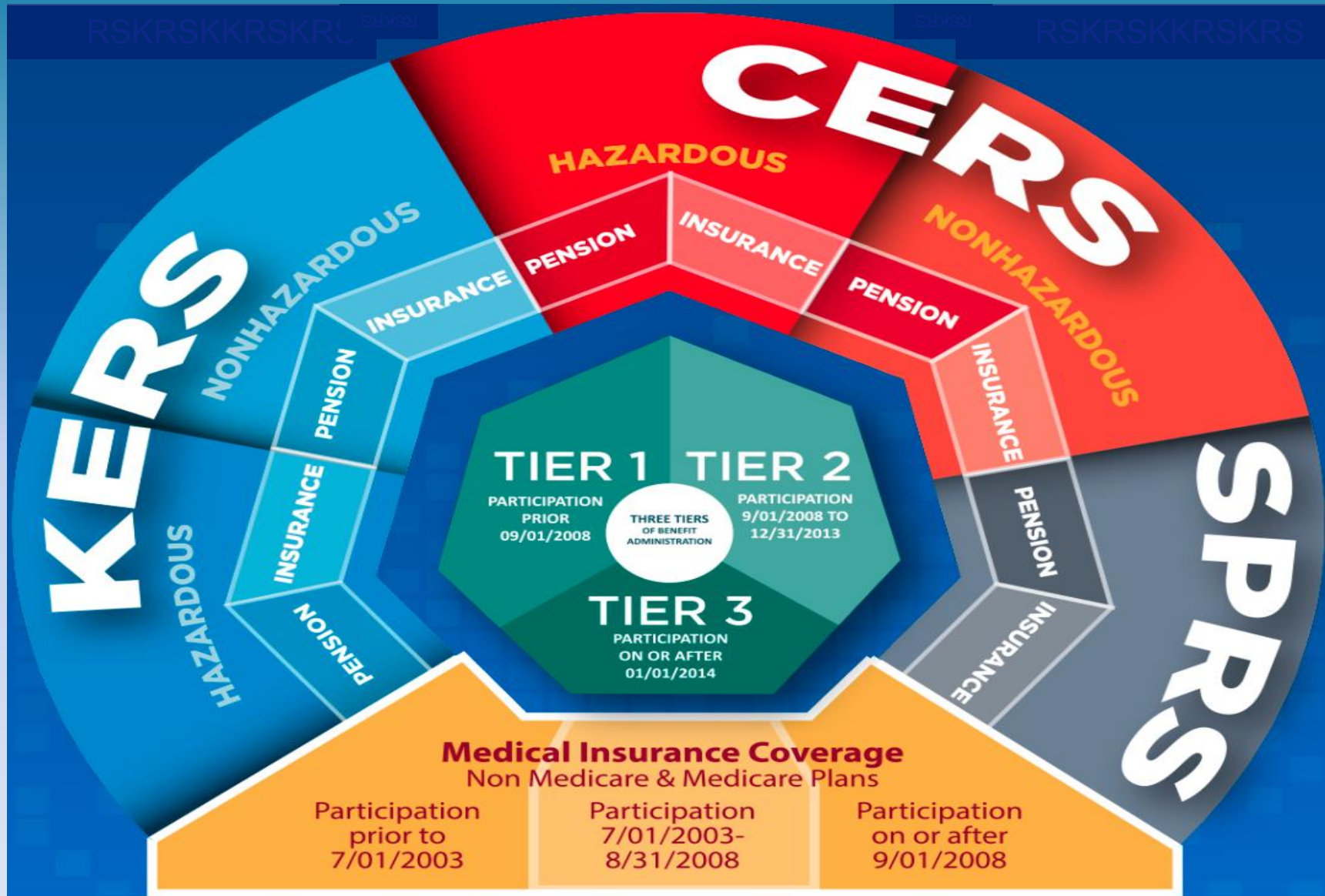
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Kentucky Retirement Systems (KRS) Facts

- **KRS administers retirement benefits for over 348,000 state and local government employees**
 - These employees include state employees, state police officers, city and county employees, local agency employees, and nonteaching staff of local school boards and regional universities.
- **KRS administers three plans:**
 - Kentucky Employees Retirement System (KERS)
 - KRS 61.510 to 61.705 and KY Administrative Regulations, Title 105
 - County Employees Retirement System (CERS)
 - KRS 78.510 to 78.852 and KY Administrative Regulations, Title 105
 - State Police Retirement System (SPRS)
 - KRS 16.505 to 16.652 and KY Administrative Regulations, Title 105

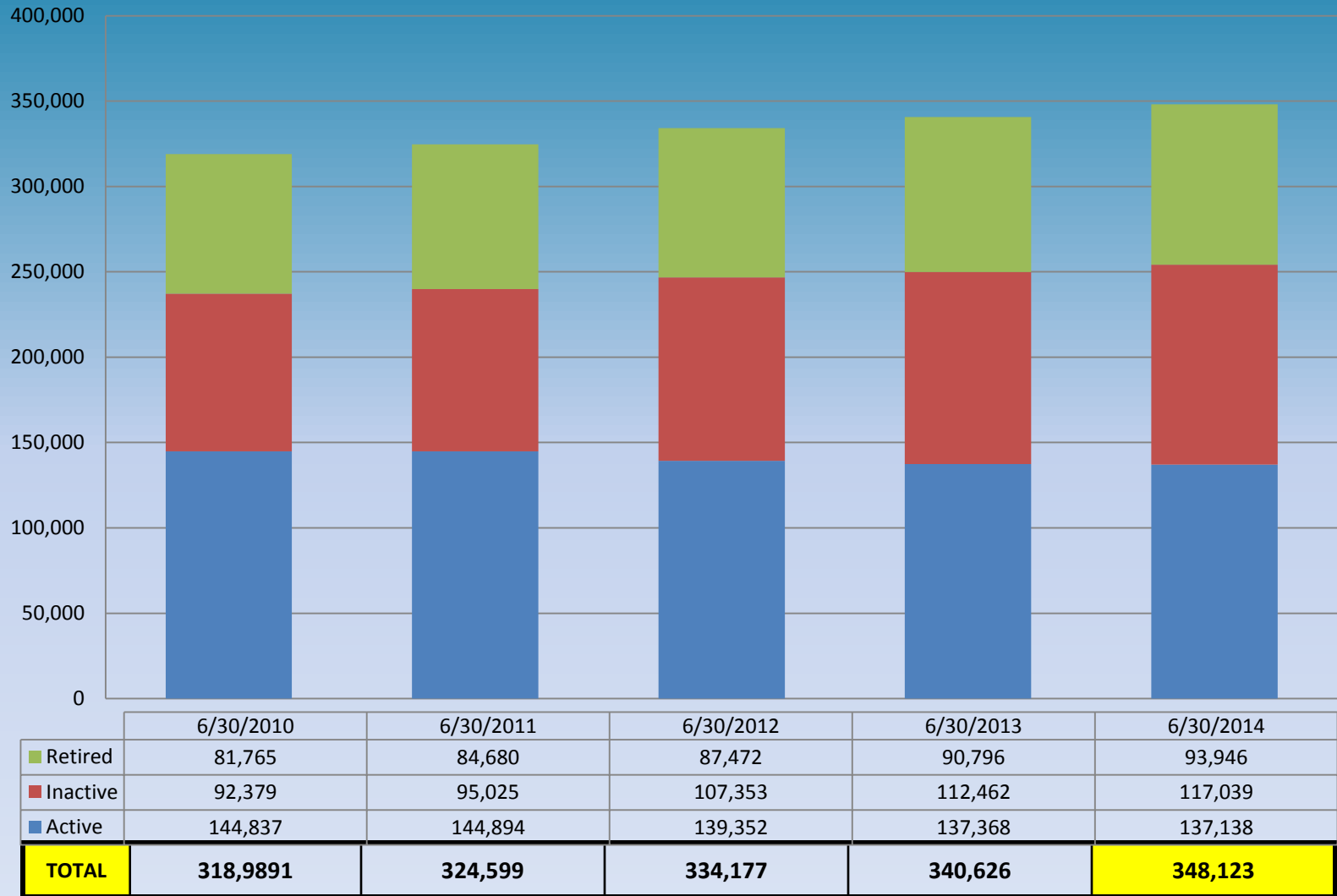
How We Differ from Other Public Pension Systems



Plan Administration

- **A thirteen-member Board of Trustees administers the Systems:**
 - Two trustees elected by KERS members
 - Three trustees elected by CERS members
 - One trustee elected by SPRS members
 - Six trustees appointed by the Governor
 - *One must be knowledgeable about the pension requirements on local governments*
 - *Two must have at least 10 years of investment experience*
 - *One each from lists of nominees submitted by the KY League of Cities, the KY Association of Counties, and the KY School Boards Association*
 - The Secretary of the Kentucky Personnel Cabinet, *ex officio*
- **The Board appoints an Executive Director to act as the Chief Administrative Officer of the Board**
- **KRS reports for budget purposes to the Kentucky General Assembly**

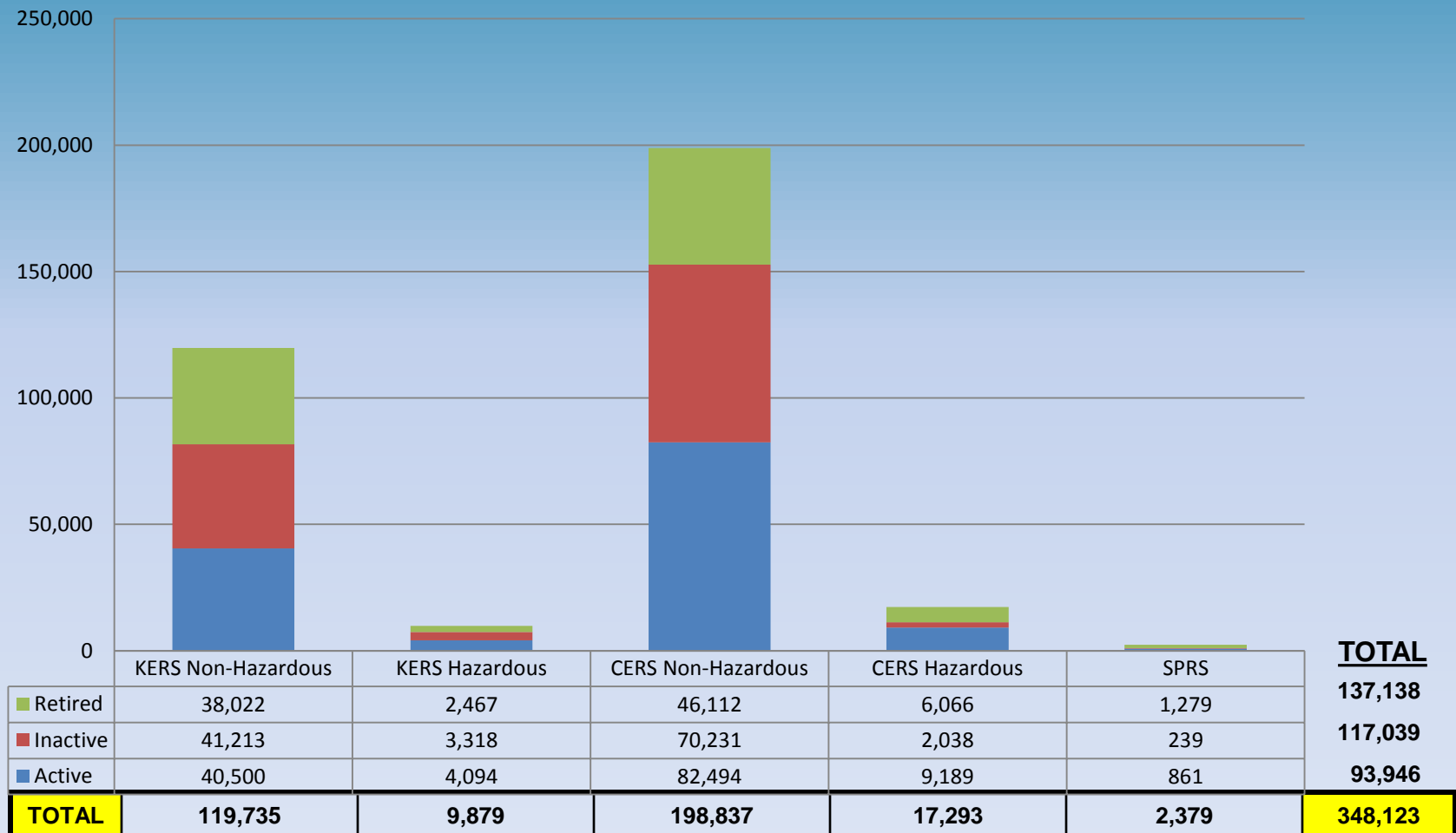
KRS Membership (2010 – 2014)



Source: June 30, 2014 Comprehensive Annual Financial Report (CAFR)

KRS Membership by System and Status

As of June 30, 2014



Source: June 30, 2014 Comprehensive Annual Financial Report (CAFR)

KRS Current Assets and Benefit Payments

- As of June 30, 2015, the (unaudited)market value of KRS assets (pension and insurance) was **\$15.70 billion**
- KRS pays over **\$2 billion** in pension and insurance benefits each year
 - 95% of benefit payments are delivered to Kentucky residents and have a significant impact on the Kentucky economy

Source: June 30, 2015 Unaudited Financial Statements and Investment Report

How is KRS Funded?

- **There are three (3) sources of funding for Kentucky Retirement Systems:**
 - **Employee Contributions:**
 - Set by statute
 - **Employer Contributions:**
 - Set annually by the KRS Board of Trustees based on an independent actuarial valuation and recommendation
 - Contribution paid by KERS and SPRS employers subject to the appropriation amount set forth by the General Assembly in the biennial budget legislation
 - **Return on Investments**
 - The KRS Investment Committee has the authority to make investment decisions and hire external investment managers and consultants
 - KRS utilizes internal investment staff, external investment managers, and independent investment consultants to conduct the investment program

How is KRS Funded?

The Majority of KRS Funding Comes from **Return on Investments**



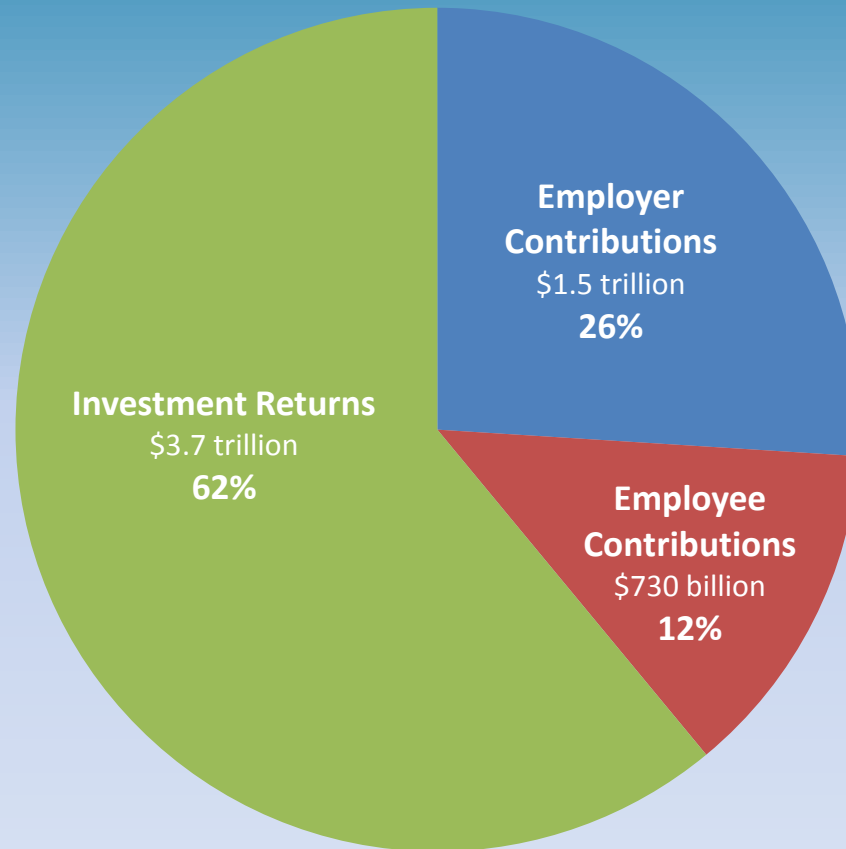
**Employee
12%**

**Employer
20%**

**Investment Income
68%**

Public Pension Fund Revenue Sources

United States, 1984 to 2013



Sources: *US Census Bureau and the National Association of State Retirement Administrators (NASRA Issue Brief: Employee Contributions to Public Pension Plans, February 2015).*

The US Census Bureau first began reporting public pension fund revenue data in 1982.

Employer Contributions

- **Set by Board of Trustees based on actuarial analysis and recommendations**
- **Employer Contribution Rate Consists of:**
 - **Pension and Insurance Contribution**
 - **Normal Cost** = The cost of projected benefits allocated to the current year (the year the valuation is conducted)
 - **UAL Payment** = The present value of benefits earned to date that are not covered by current plan assets
 - **Insurance Contribution**
 - Created by 1978 Legislature
 - Made a contractual obligation by 1988 Legislature; taken out of inviolable contract for employees hired on or after July 1, 2003
 - In 2006, GASB 43 and 45 changed the accounting and reporting requirements related to Other Post Employment Benefits (OPEB) for public retirement systems.
 - KRS must now recognize and report on an accrual basis the cost of retiree health insurance benefits over the working life of the employee

Actuarially Required 2015-2016 Employer Contributions

(as a percent of payroll)

System	Pension Normal Cost	Pension Admin. Expense	Payment On Pension UAL	Total Pension Rate	Insurance Normal Cost	Insurance Admin. Expense	Payment on Insurance UAL	Total Insurance Fund	Actuarial Required Rates from 2013 Valuation	Phase-in Rates*
KERS (Non-Hazardous)	3.48%	0.65%	26.71%	30.84%	2.69%	.26%	4.98%	7.93%	38.77%	-
KERS (Hazardous)	5.24%	0.55%	10.58%	16.37%	9.27%	.14%	.56%	9.97%	26.34%	-
SPRS	8.05%	0.41%	45.44%	53.90%	11.91%	.41%	9.54%	21.86%	75.76%	-
CERS (Non-Hazardous)	3.56%	0.79%	8.40%	12.75%	3.32%	.20%	1.83%	5.35%	18.10%	17.67%*
CERS (Hazardous)	6.09%	0.26%	14.38%	20.73%	8.90%	.15%	5.92%	14.97%	35.70%	34.31%*

* The CERS rates reflect the ten-year phase-in of the insurance portion of the rate required by KRS 61.565(6).

KENTUCKY RETIREMENT SYSTEMS INVESTMENT PROGRAM



The KRS Investment Function

- **Under Kentucky Revised Statute 61.650, the KRS Board of Trustees (the Board) has the “... exclusive power to invest and reinvest... (the Systems’ funds)... in accordance with federal law.”**
- **The Board is required by statute to establish an Investment Committee**
 - Two (2) members must be the two trustees with investment experience appointed by the Governor.
 - Three (3) members are appointed by the Board chair.
- **The Investment Committee has the authority to implement the investment policies adopted by the Board and to “... act on behalf of the Board on all investment-related matters and to acquire, sell, safeguard, monitor, and manage the assets and securities of the several funds.”**
- **The KRS Chief Investment Officer supervises the KRS Investment Division and reports to the Investment Committee and the Executive Director (for administrative purposes).**

Staff Educational Qualifications

(9 Professional Staff and 1 Administrative Assistant)

- **Traditional Education – Advanced Degrees**
 - 4 MBA's
 - 1 MS Finance
- **Industry Certifications**
 - 3 Chartered Financial Analyst (CFA) Charterholders
 - 1 CFA Candidate (6 covered by CFA Code of Ethics)
 - 2 Chartered Alternative Investment Analysts (CAIA)
 - 1 CAIA Candidate

Internal vs. External Management

Pension

Internal	\$2,108,986,767	18.41%
External	\$9,345,157,286	81.59%

Insurance

Internal	\$1,023,358,691	25.01%
External	\$3,068,990,584	74.99%

Aggregate

Internal	\$ 3,132,345,459	20.15%
External	\$12,414,147,869	79.85%

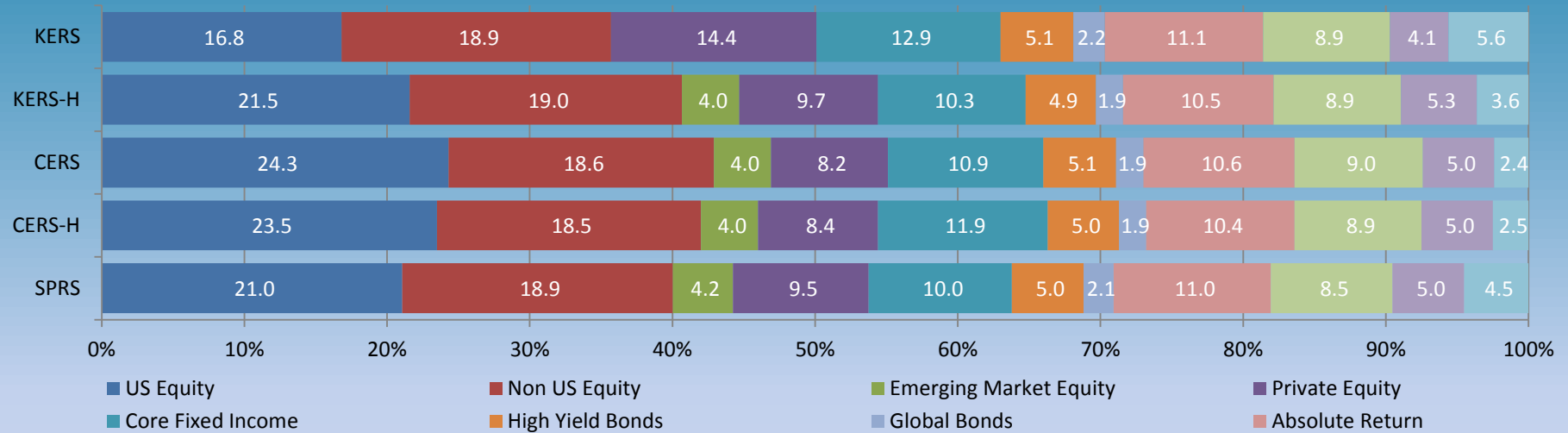
Fiscal and Calendar Year Pension Returns

KRS Pension Fund	
Fiscal Year	Return
1990	11.67
1991	8.24
1992	11.67
1993	12.16
1994	1.02
1995	18.99
1996	17.63
1997	24.16
1998	20.76
1999	14.27
2000	6.42
2001	(5.42)
2002	(4.31)
2003	4.28
2004	13.59
2005	9.25
2006	9.68
2007	15.27
2008	(4.22)
2009	(17.23)
2010	15.76
2011	18.75
2012	0.01
2013	10.82
2014	15.55

KRS Pension Fund	
Calendar Year	Return
1990	1.39
1991	21.79
1992	8.77
1993	7.40
1994	1.24
1995	26.91
1996	16.54
1997	23.27
1998	18.08
1999	14.08
2000	(2.70)
2001	(3.31)
2002	(6.82)
2003	20.02
2004	10.93
2005	6.40
2006	13.98
2007	6.58
2008	(23.92)
2009	19.66
2010	12.70
2011	(0.48)
2012	12.68
2013	12.70
2014	5.14

KENTUCKY RETIREMENT SYSTEMS – PENSION PLAN PERFORMANCE & ALLOCATION - 12/31/14

Pension Plan Allocations



KRS - PENSION							
	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
KERS	-0.85	-0.61	5.98	10.23	8.48	5.86	9.41
KERS Plan Index	-0.63	-0.62	5.38	10.75	8.58	5.99	9.52
KERS-H	-0.95	-1.17	4.90	10.08	8.39	5.82	9.40
KHAZ Plan Index	-0.79	-0.79	5.44	10.82	8.62	6.00	9.53
CERS	-0.94	-1.07	4.91	10.08	8.39	5.82	9.40
CERS Plan Index	-0.81	-0.75	5.50	10.84	8.63	6.01	9.53
CERS-H	-0.93	-1.05	4.92	10.07	8.38	5.82	9.40
CHAZ Plan Index	-0.81	-0.75	5.49	10.84	8.63	6.01	9.53
SPRS	-0.97	-1.08	4.96	10.10	8.40	5.83	9.40
SPRS Plan Index	-0.80	-0.81	5.37	10.79	8.60	6.00	9.53

KENTUCKY RETIREMENT SYSTEMS ADMINISTRATIVE EXPENSES



Allocation of KRS Administrative Costs

- KRS 61.580 provides the following: “The retirement allowance account shall be the account in which shall be accumulated all employer contributions From this account shall be paid the expenses of the system and the board incurred in administration of the system
- KRS administrative costs are paid from each plan’s Retirement Allowance Account and are allocated based on pro rata share of the System’s total membership. **For the 2014-2015 fiscal year, the membership totals and the Administrative Percentages have been calculated as follows:**

System	Member Count	System Percentage
KERS	119,735	34.3%
KHAZ	9,879	2.82%
CERS	198,837	57.16%
CHAZ	17,293	4.90%
SPRS	2,379	0.80%
TOTALS	348,123	100.00%

- Total administrative expense for 2015 was \$31.1 million dollars. \$89.08 per member per year.

Actuarial Basics

- **Funding Level**

- Ratio of Actuarial Assets to Actuarial Liabilities
- Measure of the plan's financial soundness
- Provides a “snapshot” of the plan's ability to meet liabilities (benefits) earned to date
- Actuarial funding level is based on a 5-year smoothing method, i.e. 20% of market gains/losses are recognized each year over a 5-year period

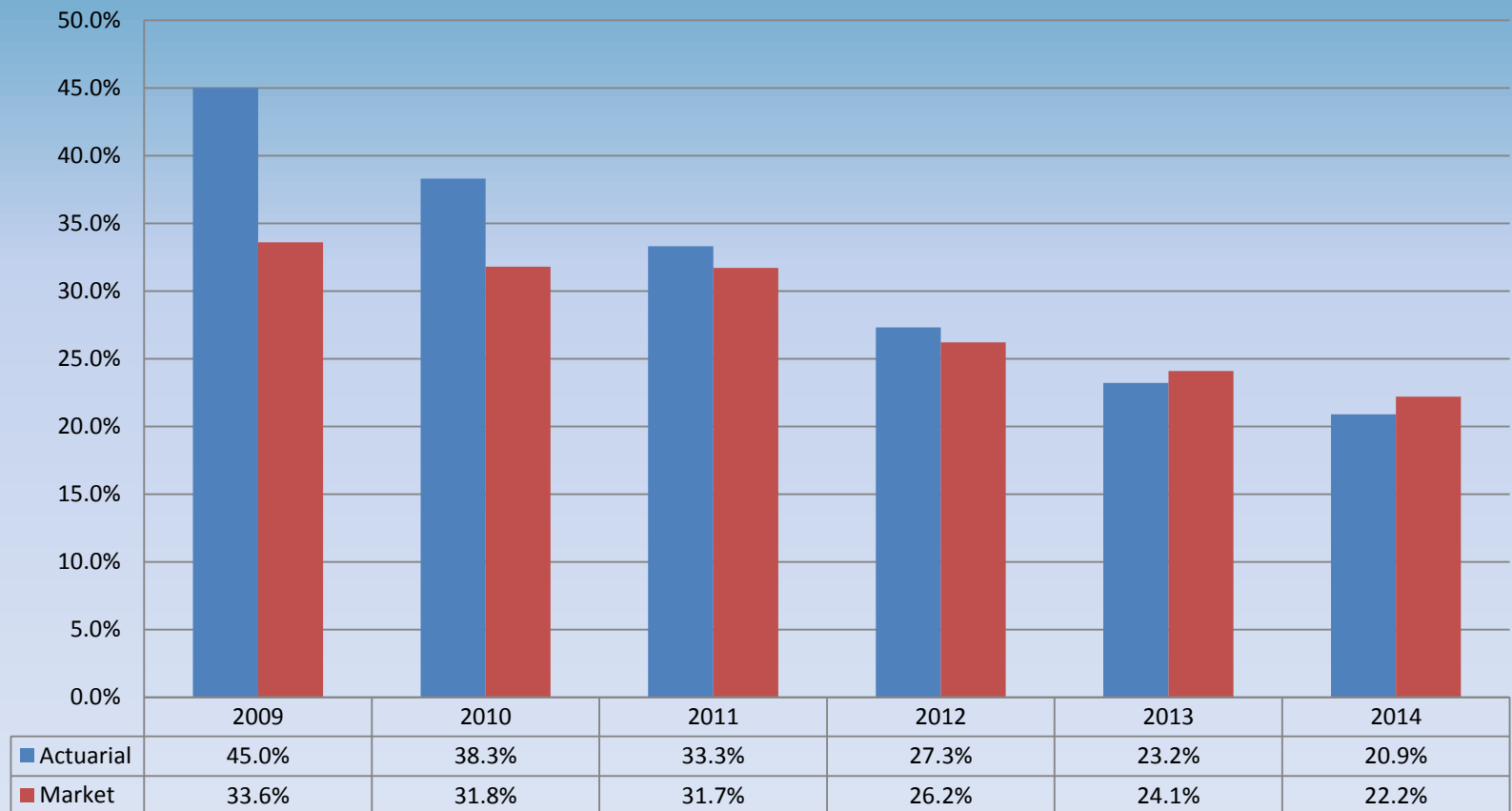
Combined Funded Status

Fund	June 30, 2014			June 30, 2013		
	Pension	Insurance	Combined	Pension	Insurance	Combined
KERS Non-Hazardous	21.0%	27.9%	22.1%	23.2%	23.4%	23.2%
KERS Hazardous	64.6%	105.6%	78.0%	64.5%	96.2%	74.9%
CERS Non-Hazardous	62.6%	70.0%	64.2%	60.1%	66.6%	61.5%
CERS Hazardous	59.8%	66.8%	62.0%	57.7%	62.1%	59.1%
SPRS	35.6%	66.4%	43.5%	37.1%	61.3%	43.3%

Actuarial Basics

Summary of Actuarial Funding Level (2009 – 2014)

KERS Non-Hazardous PENSION

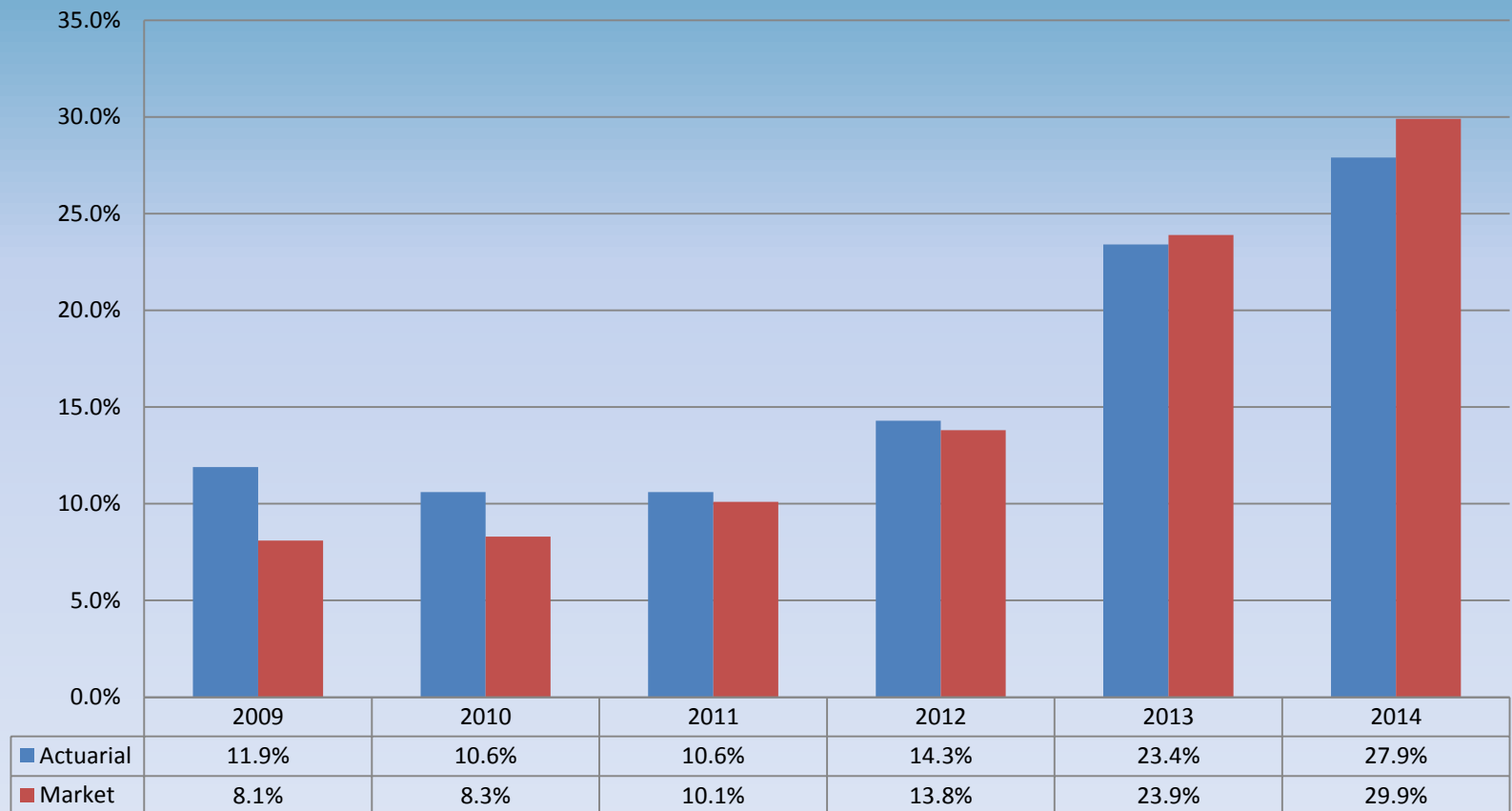


Source: June 30, 2014 Comprehensive Annual Financial Report

Actuarial Basics

Summary of Actuarial Funding Level (2009 – 2014)

KERS Non-Hazardous INSURANCE

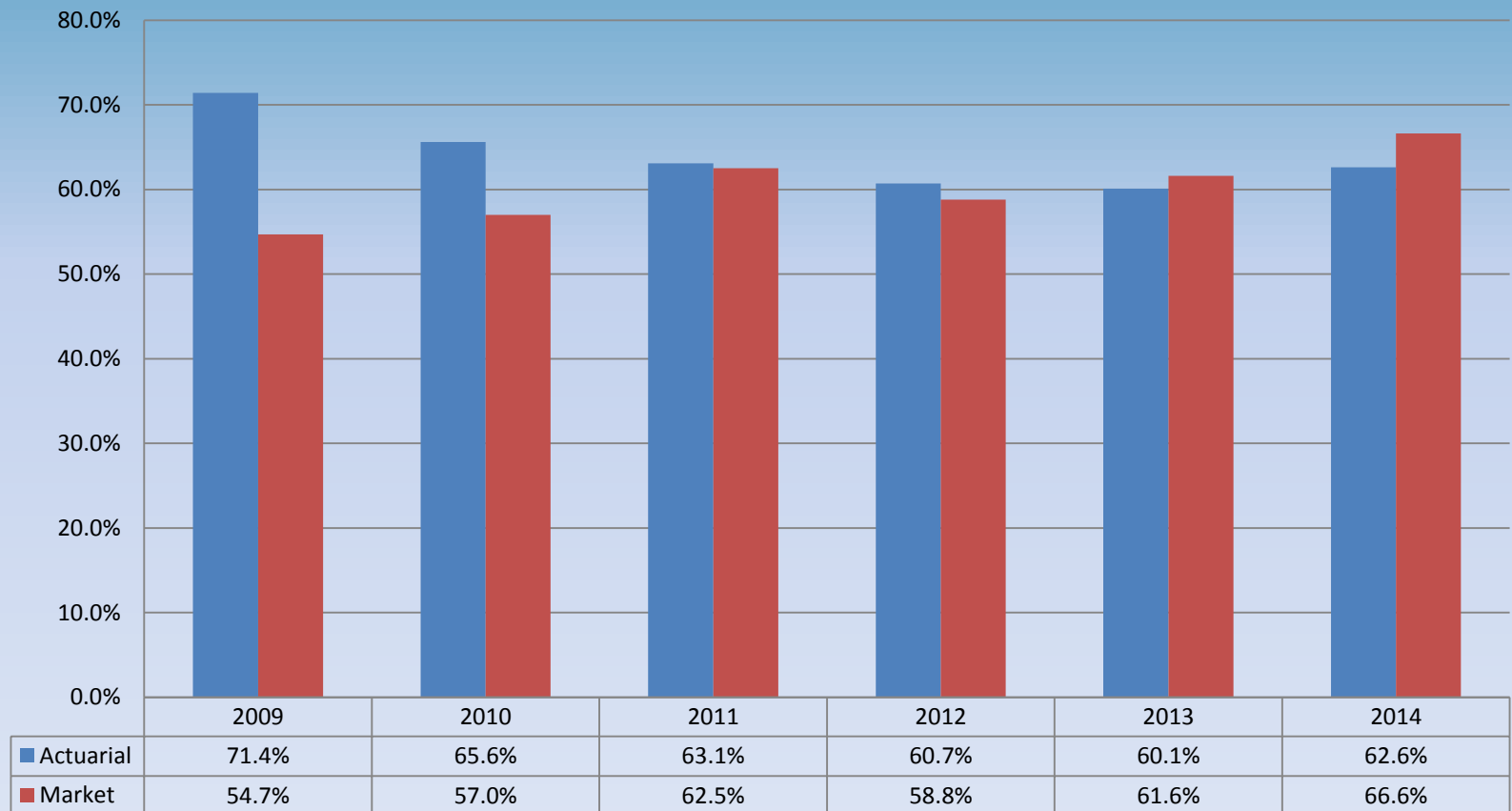


Source: June 30, 2014 Comprehensive Annual Financial Report

Actuarial Basics

Summary of Actuarial Funding Level (2009 – 2014)

CERS Non-Hazardous PENSION

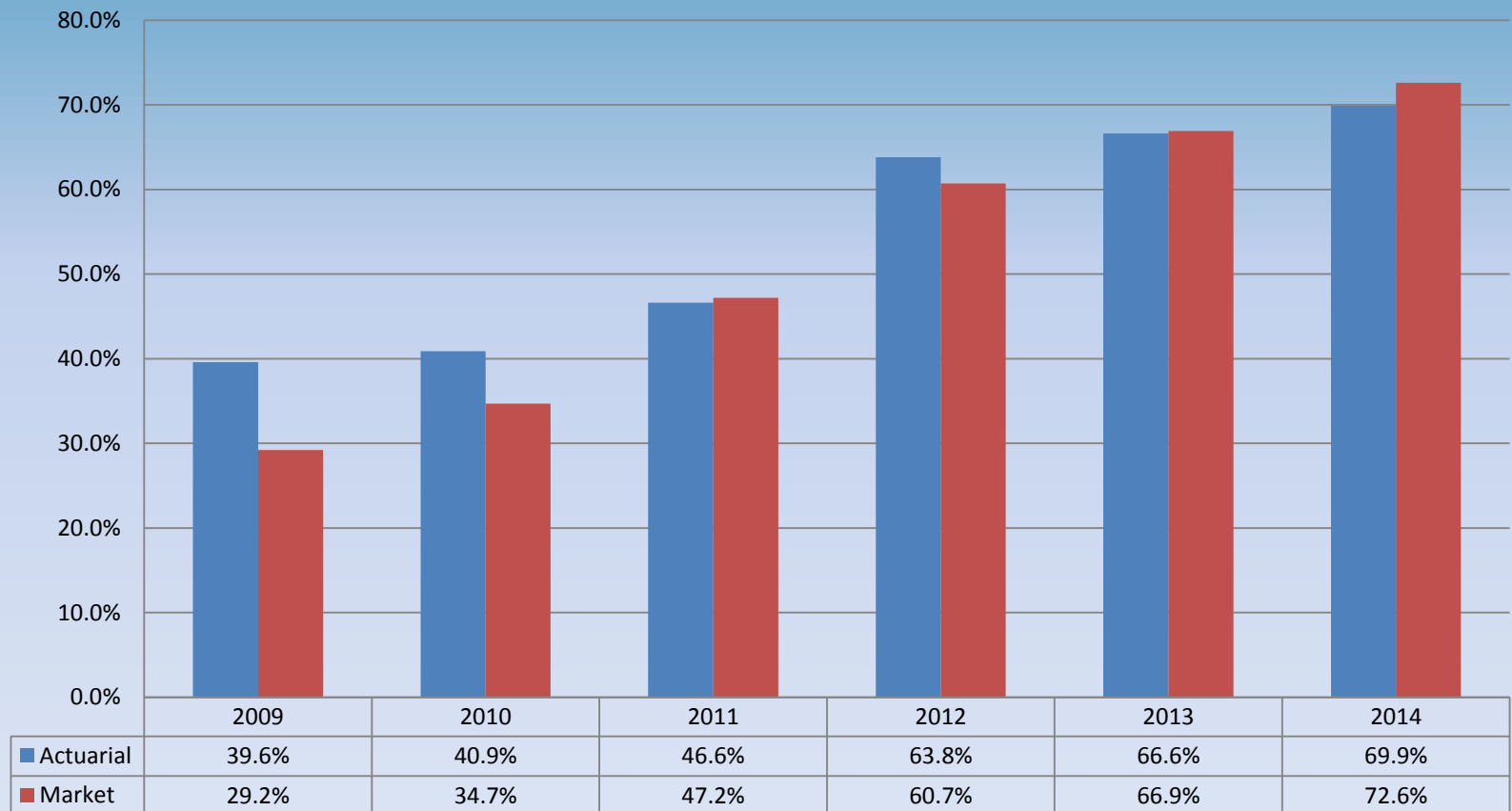


Source: June 30, 2014 Comprehensive Annual Financial Report

Actuarial Basics

Summary of Actuarial Funding Level (2009 – 2014)

CERS Non-Hazardous INSURANCE



Source: June 30, 2014 Comprehensive Annual Financial Report

Actuarial Basics

- **Unfunded Actuarial Liability (UAL)**
 - Difference between current value of assets and liabilities
 - Represents the unfunded liability on benefits already earned by employees and retirees
 - UAL is amortized over a 30 year or shorter period, much like a home mortgage
 - The amortized payment is a part of the employer contribution rate

KERS/SPRS 2014 Unfunded Liabilities

(in billions of dollars)

	2014			2013		
System	Pension	Insurance	Combined	Pension	Insurance	Combined
KERS Non-Hazardous	\$9.13	\$1.61	\$10.74	\$8.75	\$1.63	\$10.38
KERS Hazardous	\$0.29	(\$0.02)	\$0.27	\$0.28	\$0.01	\$0.29
SPRS	\$0.44	\$0.08	\$0.52	\$0.41	\$0.09	\$0.50
TOTAL	\$9.86	\$1.67	\$11.53	\$9.44	\$1.73	\$11.17

Source: June 30, 2014 Actuarial Valuation

CERS 2014 Unfunded Liabilities

(in billions of dollars)

	2014			2013		
System	Pension	Insurance	Combined	Pension	Insurance	Combined
CERS Non-Hazardous	\$3.66	\$0.79	\$4.45	\$3.74	\$0.82	\$4.56
CERS Hazardous	\$1.32	\$0.50	\$1.82	\$1.32	\$0.54	\$1.86
TOTAL	\$4.98	\$1.29	\$6.27	\$5.06	\$1.36	\$6.42

Source: June 30, 2014 Actuarial Valuation

What Caused the Increase in Unfunded Liabilities?

- 1. Reductions to Employer Contribution Rates in KERS and SPRS**
- 2. Retiree COLA increases not pre-funded**
- 3. 2008-2009 Market Losses**
- 4. Cost Inflation for Retiree Insurance**
- 5. Compliance with GASB 43/45 (2006)**
- 6. Demographic losses**

KERS Unfunded Liability Attribution

Actuary Prepared Attribution of Unfunded Liability: KERS Non-Hazardous Pension Plan

Fiscal Year	Unfunded Actuarial Liability (Beg. Of Year)	Investment (G) / L	COLA	Benefits	Actuarial Assumptions	Employer Contribution Shortfall	Demographic & Salary Experience	Other	Unfunded Actuarial Liability (End of Year)
2008	4,089	12	245	0	0	179	128	158	4,811
2009	4,811	308	205	-45	-12	198	131	269	5,864
2010	5,864	324	102	0	0	216	-37	326	6,795
2011	6,795	243	113	0	0	221	-129	212	7,455
2012	7,455	325	117	0	0	236	-53	180	8,260
2013	8,260	166	0	0	0	249	-18	94	8,751
2014	8,751	-129	0	0	0	224	68	212	9,126

Total Increase	1,249	782	-45	-12	1,522	90	1,451	
Attribution %	24.79%	15.50%			30.21%	1.78%	28.80%	100.0%

CERS Unfunded Liability Attribution

Actuary Prepared Attribution of Unfunded Liability: CERS Non-Hazardous Pension Plan

Fiscal Year	Unfunded Actuarial Liability (Beg. Of Year)		Investment (G) / L	COLA	Benefits	Actuarial Assumptions	Demographic & Salary Experience	Other	Unfunded Actuarial Liability (End of Year)
2008	1,192		28	129	0	0	83	141	1,573
2009	1,573		344	101	0	44	36	165	2,262
2010	2,262		354	55	0	0	7	235	2,912
2011	2,912		230	62	0	0	35	49	3,288
2012	3,288		341	71	0	0	-71	-37	3,592
2013	3,592		165	0	0	0	29	-44	3,742
2014	3,742		-219	0	0	0	83	49	3,655

Total Increase	1,243	418	0	44	202	556	
Attribution %	50.46%	16.97%	0.00%	1.78%	8.20%	22.57%	100.0%

Retiree Cost of Living Adjustment (COLA)

- The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits
- During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%
- Statute does not allow pre-funding: the COLA becomes an unfunded liability for a 30 year amortization period
- **COLAs are NOT guaranteed by the inviolable contract language in state law:** the General Assembly has the right to reduce, suspend, or eliminate the COLA
- The General Assembly suspended COLAs for FY 2012-13 and FY 2013-14 per the State Executive Branch Budget bill (HB 265, 2012 RS)
- SB 2 (2013 RS) now only permits COLAs for retirees under two scenarios:
 1. If the particular system for which the COLA is provided...
 - Is Greater than 100% funded, *and*
 - The COLA will not reduce the funding level of the system below 100%, *and*
 - The COLA is authorized by the legislature to be paid using surplus funds
 2. OR if the legislature prefunds the COLA

Required Contribution to Fully Fund 1.5% COLA's

Fund	Payable	
	July 1, 2014	July 1, 2015
KERS Non-Hazardous	\$126,831,924	\$128,526,660
KERS Hazardous	8,030,529	8,219,212
CERS Non-Hazardous	83,576,350	87,745,155
CERS Hazardous	30,503,466	31,880,174
State Police Retirement System	8,002,669	8,065,453

Source: January 2, 2014 Letter from Cavanaugh Macdonald Consulting, LLC

Near Term Challenges Facing KRS

- **Plan Funding – KERS Nonhazardous & SPRS**
- **Implementation of HB 62 – Participating Employer Withdrawal**
- **Resolving Pension Spiking Issues**
- **Implementation of GASB Standards 74 and 75 (OPEB – Health Insurance – Reporting and Accounting**
- **Seven Counties Bankruptcy and Other Mental Health/Mental Retardation Board cases**
- **Budgetary and Staffing Constraints**

KENTUCKY RETIREMENT SYSTEMS



Questions and Comments

CONTACT INFORMATION



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